



Director of
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Intelligence

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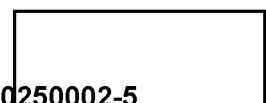
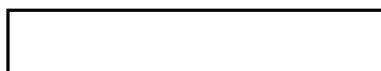
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The Overnight Reports, printed on yellow paper as the final section of the *Daily*, will often contain materials that update the Situation Reports and Briefs and Comments.

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SPECIAL ANALYSIS

JAPAN-US: Prime Minister Ohira's Visit



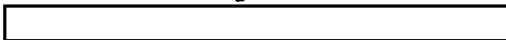
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During his visit to Washington beginning tomorrow, Prime Minister Ohira will underscore his personal commitment to cooperate with the US on economic and foreign policy issues as he seeks to cushion bilateral differences on the Japanese Government's procurement policies. Ohira will point to the decline in Japan's global trade surplus to show that overall economic trends are running in the right direction. He is still troubled by the danger that a public spotlight on the procurement impasse will intensify the popular sense in Japan of growing frictions with the US. He hopes that a successful visit will not only dispel that notion but also emphasize the broader range of shared goals within the US-Japan alliance. Looking toward the international economic summit scheduled for Tokyo in June, Ohira will also try to stake out some common ground with the US on energy issues, aid, and long-term economic planning.



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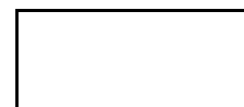
Ohira is troubled by the popular perception in Japan that economic frictions with the US have increased since he took office late last year. It is mandatory for any Japanese prime minister to manage relations with the US effectively in order to maintain his political credentials. Ohira sees his US visit as an occasion to underscore his skills in cooperating with Japan's most important ally.



Political Standing

Ohira's political position has steadily strengthened since he defeated Prime Minister Fukuda in the ruling Liberal Democratic Party's leadership contest five months ago. He has shepherded important bills through the legislature on schedule despite the opposition parties'


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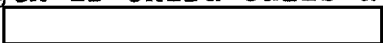


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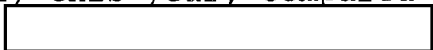
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focus in the Diet on the Grumman and McDonnell Douglas bribery scandals. He has benefitted from the good personal ties he has long nurtured with leaders of the moderate opposition parties and is responsible for the success of the political coalitions that won overwhelmingly in the nationwide local elections this month. 

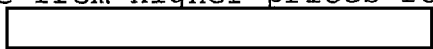
The recent drop in Japan's unemployment rate, now a little above 2 percent, and the prospect that this year's wage hikes may be higher than the unions expected, should also help Ohira and his party. In fact, the Prime Minister's Liberal Democratic supporters now argue that the political and economic trends augur well for a rebound in the party's Diet strength if Ohira calls a general election later this year. 

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The Economic Situation

The Prime Minister will press the point that Japan is making progress in reducing its current account surplus and in maintaining domestic economic growth. The Japanese current account surplus will decline to less than \$5 billion this year, compared with a record \$16.6 billion in 1978, in large part because of rapidly rising import prices of energy and other raw materials. The increase in oil prices alone will boost Japanese imports by \$5 billion, while export earnings will be up only slightly this year, compared with a 20-percent rise in 1978. 

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Japan's sharply higher import bill will do little to trim its large trade surplus with the US, which last year reached \$10 billion. Most of the gains will accrue to members of the Organization of Petroleum Exporting Countries, Southeast Asia, and Australia--Japan's leading suppliers of oil and raw materials. What benefit the US does reap will come from higher prices for lumber, soybeans, and grain. 

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The reduction in Japan's global current account is likely to prove transitory. In the past, steep drops in Japan's current account have come only in periods of rapidly rising commodity prices. Whenever this happened,

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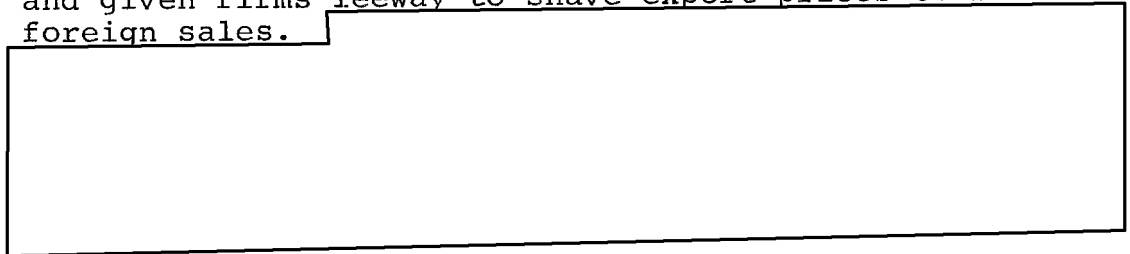
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Japan has bounced back by expanding its exports of manufactured goods, especially to the US. Despite the yen appreciation in 1977 and 1978, Japanese industry remains in a good position to mount an export drive to offset the added costs of raw materials imports. The depreciation of the yen in recent months has fattened profit margins and given firms leeway to shave export prices to boost foreign sales.

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On the domestic front, Ohira will likely cite the current upswing in industrial production and retail sales, as well as the slippage in unemployment, as evidence that his policies are keeping Japan on a strong domestic growth track. Helped by a large boost in government outlays, the domestic economy expanded by 6.9 percent in 1978. Domestic growth will probably slip to about 6.3 percent this year, largely because government spending will not match the 1978 increase, and higher inflation will eat away income gains and stall the upswing in consumer spending.

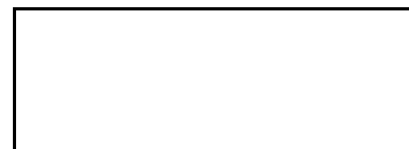
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Ohira's economic policies have become steadily more conservative since he took office, reflecting his concern over inflation--a subject he will address in Washington. Tokyo has been tightening monetary policy for several months; the Bank of Japan announced a hike in the official discount rate in early April.

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Because of a sharp drop in consumer prices through most of 1978, the average inflation rate this year will not be much above the average 1978 pace of 4.3 percent. Nonetheless, wholesale and consumer prices, fueled by higher costs for imported raw materials and oil, have been moving up sharply since late 1978. We expect Japanese import prices measured in yen terms to increase roughly 13 percent this year, compared with a drop of 16 percent in 1978.

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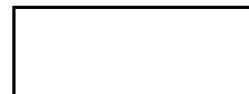
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OVERNIGHT REPORTS


(The items in the Overnight Reports section have not been coordinated within the intelligence community. They are prepared overnight by the Office of Current Operations with analyst comment where possible from the production offices of NFAC.)

Afghanistan-US


The US Embassy in Kabul reports that one of its Marine security guards was detained by Afghan authorities today after he apparently had torn down several Afghan flags. Although Afghan soldiers and police alleged that the Marine subsequently assaulted them with a knife, the Embassy states that there is no indication that he injured anyone. The commander of Afghan police refused requests that Embassy personnel be present when the Marine is questioned, and the Embassy plans an immediate protest to the Foreign Ministry. According to the Embassy, there are serious doubts about the Marine's mental and emotional stability. 

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Japan - Middle East

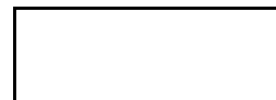
US Ambassador to Kuwait Maestroni reports that his Japanese counterpart has confirmed the postponement of Egyptian President Sadat's planned visit to Tokyo in July. The Japanese Ambassador subsequently observed that his country imports 80 percent of its crude oil from the Persian Gulf. 

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The US Embassy in Cairo reported yesterday that the first secretary of the Japanese Embassy there had confided that Tokyo's policy toward the Egyptian-Israeli peace treaty "has been captured by bureaucrats" afraid to offer any support, including increased economic assistance, that might elicit negative reactions from other Arab states. 

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Ecuador

Returns from yesterday's presidential runoff election, although incomplete, indicate that populist leader Jaime Roldos has defeated center-right candidate Sixto Duran-Ballen, a former mayor of Quito, by an apparently wide margin. Roldos, who has claimed victory, is said to be leading in all provinces reporting returns, including Quito and other areas that had been expected to provide Duran-Ballen's principal support. The new executive and Ecuador's legislature, also elected yesterday, are scheduled to assume office on 10 August. 

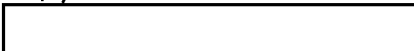
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Iraq-Iran

The US Interests Section in Baghdad has reported increasing indications that the Kurdish situation around Sulaymaniya--a part of Iraqi Kurdistan adjacent to the area of recent Kurdish unrest in Iran--is becoming more volatile. Reports of dissidence, including one that an Iraqi company had been "wiped out," continue to be fragmentary and are probably exaggerated. Nonetheless, the Interests Section concluded that Baghdad is having difficulty in sealing off Kurdish areas closest to the Iranian unrest. Iraq is treating the problem in low key, possibly to avoid encouraging trouble in the apparently quiet northern Kurdish areas. 

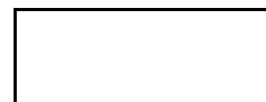
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West Germany

Provisional results from yesterday's election in Schleswig-Holstein indicate that the Christian Democrats won 37 of the 73 seats, narrowly retaining their 29-year control of that state. Environmentalists won 2.4 per cent of the vote and may well have prevented a victory by the Social Democrats (31 seats) and the Free Democrats (four seats), who form the national coalition government in Bonn. 

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Turkey


The martial law commander in Istanbul yesterday declared a curfew from midnight tonight to 0500 Wednesday (local time). No one will be allowed on the streets, and no trains or buses will enter or leave the city. In a related move to enforce the ban on demonstrations in Istanbul tomorrow, the government Saturday detained some of the leaders of DISK, the leftist trade union confederation which traditionally holds a May Day labor rally. These labor leaders, who had publicly stated that they intended to defy the ban, were released yesterday after being warned they would be held responsible for any attempt to demonstrate. 

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Nepal

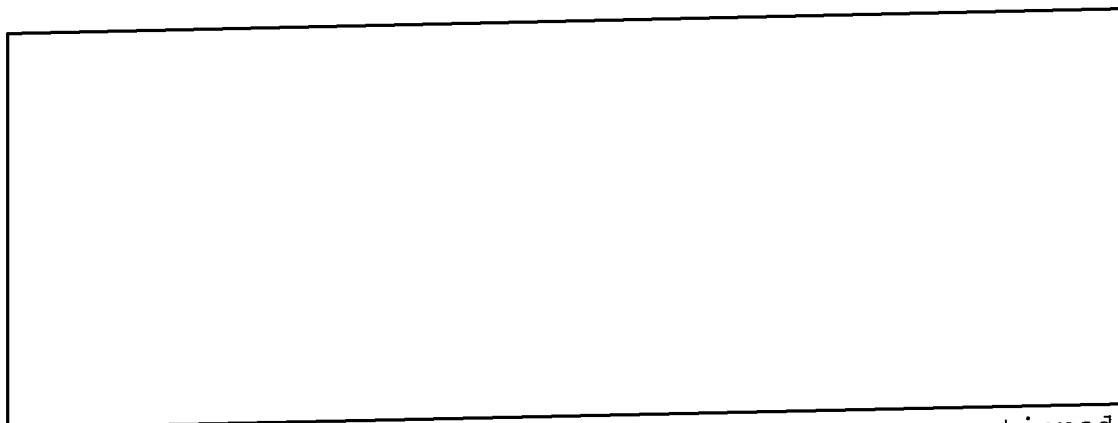
According to press reports, opposition leader B. P. Koirala was placed under house arrest Saturday, and other key officials of his banned Nepali Congress Party were taken into police custody. The government acted after three weeks of largely student-inspired strikes and agitation, including a reportedly violent disturbance on Friday south of Kathmandu. 

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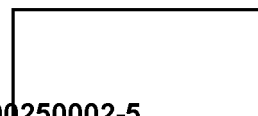
COMMENT: King Birendra probably was induced to take this step by hardliners in the royal family and among his advisers. 

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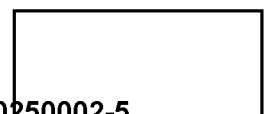
Chad

Chad's state-run radio has announced that the provisional state council has agreed on a 30-member interim government, according to the Sudan News Agency. The arrangement reportedly includes all four parties that had been trying since 10 April to form a government. Former Prime Minister Habre, a Muslim, has been given the defense post, and Muslim rebel leader Goukouni will be Interior Minister. The principal representative of southern, Christian interests apparently will be General Pengi Domogo, the new Vice President. 

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COMMENT: *The new government does not contain representatives of the two Libyan-backed Muslim insurgent groups active in eastern Chad.* 

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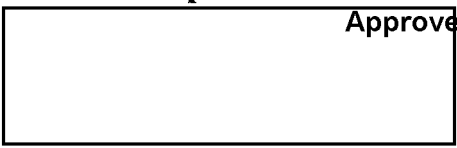


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